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UNITED STATES BANKRUPTCY COURT  
FOR THE EASTERN DISTRICT OF WASHINGTON  
AT SPOKANE

In re

THE CATHOLIC BISHOP OF  
SPOKANE a/k/a THE CATHOLIC  
DIOCESE OF SPOKANE,

Debtor.

Case No. 04-08822-PCW-11

**FIRST AMENDED DISCLOSURE  
STATEMENT FOR DEBTOR'S  
SECOND AMENDED PLAN OF  
REORGANIZATION JOINTLY  
PROPOSED BY EXECUTIVE  
COMMITTEE OF THE  
ASSOCIATION OF PARISHES,  
DEBTOR, FUTURE CLAIMS  
REPRESENTATIVE AND TORT  
CLAIMANTS' COMMITTEE**

FIRST AMENDED DISCLOSURE STATEMENT FOR DEBTOR'S  
SECOND AMENDED PLAN - 1  
291/526062.46  
030707 1144/62174.00001

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**THIS DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE  
BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION WITHIN  
THE MEANING OF BANKRUPTCY CODE § 1125. IF YOU HAVE REQUESTED  
AND RECEIVED A COPY OF THE DISCLOSURE STATEMENT IN  
CONNECTION WITH THE COURT'S HEARING TO CONSIDER APPROVAL OF  
THE DISCLOSURE STATEMENT, OR HAVE OTHERWISE OBTAINED A COPY  
OF THIS DISCLOSURE STATEMENT PRIOR TO APPROVAL BY THE  
BANKRUPTCY COURT, NOTHING CONTAINED HEREIN IS OR SHALL BE  
DEEMED A SOLICITATION OF ACCEPTANCE OF THE DEBTOR'S PLAN OF  
REORGANIZATION JOINTLY PROPOSED BY EXECUTIVE COMMITTEE OF  
THE ASSOCIATION OF PARISHES, DEBTOR, FUTURE CLAIMS  
REPRESENTATIVE AND TORT CLAIMANTS' COMMITTEE.**

## **I. INTRODUCTION**

1.1 Purpose of this Disclosure Statement. The purpose of this Disclosure Statement is to provide Creditors with adequate information to make an informed judgment about the proposed Plan of Reorganization.

1.2 Abbreviated Plan Summary.

1.2.1 Purpose of the Plan. The purpose of the Plan is to pay fair compensation to persons who were sexually Abused (who are called "Tort Claimants"), to pay other Creditors what they were owed when the bankruptcy case was filed (which are called "Other Claims"), to pay the expenses of the bankruptcy (primarily Claims for "Professional Fees"<sup>1</sup> of attorneys and accountants), and to provide for non-monetary measures by the Debtor addressing sexual abuse of children. Subject to the provisions of the Plan, the

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<sup>1</sup> Professional Fees also are referred to as "Administrative Expense Claims for Professional Fees".

Debtor intends to preserve and advance the mission and ministries of the Catholic Church within the Catholic Diocese of Spokane

1.2.2 Funding the Plan.

1.2.2.1 Liquidation of Debtor's Assets, Contributions by Parishes and Participating Catholic Entities, and Insurance Settlements to Pay Tort Claimants and Professional Fees. The Debtor will raise \$48 million from liquidation of its assets as necessary, insurance settlements, and contributions by the Parishes and certain other Participating Catholic Entities<sup>2</sup> to pay Tort Claims an amount estimated to be no less than \$40 million, Plan Trust Costs and Expenses incurred in determining Tort Claims estimated to be no more than \$1 million,<sup>3</sup> and unpaid Professional Fees of approximately \$7 million.<sup>4</sup> The Debtor's future income also is available to pay these Claims if necessary. In addition, the Debtor will provided insurance for, and the Debtor and certain Parishes in FTC Parish Groups 1 and 2 will pay, certain Allowed Future Tort Claims.

1.2.2.2 Payment of Other Claims from Future Income.

Approximately \$262,775 per month of pre-confirmation Ordinary Course Administrative Expense Claims and post-confirmation ordinary course expenses for the Debtor's day to day operating expenses, approximately \$18,000 of General Unsecured Claims, and approximately \$25,000 per month for current Priest Retirement Claims will be paid from the Debtor's future income, and not from

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<sup>2</sup> The Participating Catholic Entities are Catholic Cemeteries of Spokane, Morning Star Boys' Ranch, Immaculate Heart Retreat Center, and Catholic Charities of Spokane.

<sup>3</sup> Plan Trust Costs and Expenses could equal or exceed \$1 million, although Proponents believe they are unlikely to exceed \$1 million and might well be no more than \$500,000.

<sup>4</sup> Proponents estimate that unpaid Professional Fees as of December 31, 2006 and future Professional Fees will total \$7 million. This includes approximately \$1,8 million paid by Debtor on our about January 31, 2007 which will be deducted from the \$48 million amount payable by Debtor. There is no guaranty that such Professional Fees will not exceed \$7 million. It is possible that the Bankruptcy Court may reduce the amount of such Professional Fees. A schedule of unpaid Professional Fees as of December 31, 2006 is attached as Exhibit 2.

liquidation of its assets, insurance settlements, or contributions by the Parishes and certain other Participating Catholic Entities before December 31, 2007, by which date the Debtor is required to pay at least \$47 million for Tort Claimants and Professional Fees. No Deposit and Loan Claims shall be paid before this \$47 million is paid.

1.2.3 Allocation of \$40 Million among Tort Claimants.

1.2.3.1 Tort Claimants' Choice of Treatment. Tort Claimants who have settled their Claims and whose settlements are approved by the Bankruptcy Court will be treated as Settled Compromise Tort Claimants or Settled Matrix Tort Claimants.<sup>5</sup> A Tort Claimant who has not settled his or her Claim must choose how he or she wants to be treated under the Plan from 5 choices: as a Convenience Tort Claimant, a Compromise Tort Claimant, a Matrix Tort Claimant, a Litigation Tort Claimant, or a Non-Releasing Litigation Tort Claimant. It is impossible to predict which or how many Tort Claimants will elect a particular treatment option.

1.2.3.1.1 Convenience Tort Claimants. A Convenience Tort Claimant is a Tort Claimant who elects to take \$15,000 for the Claim, and gives a Release of Claims. The Claimant only needs to prove to an independent tort claims reviewer ("TCR") by a preponderance of the evidence that the Claimant was Abused. The TCR will not consider (i) whether the person who Abused the Tort Claimant was a Responsible Person, (ii) any applicable statute of limitations or the passage of time since the date(s) of such Abuse, or (iii) any other defenses of Debtor, in making such determination. The Claim will be paid approximately 90 days after the Bankruptcy Court approves the Plan.

<sup>5</sup> A Tort Claimant whose settlement is not approved by the Bankruptcy Court may elect to be treated as a Convenience Tort Claimant, a Compromise Tort Claimant, a Matrix Tort Claimant, a Litigation Tort Claimant, or a Non Releasing Litigation Tort Claimant.

1.2.3.1.2 Compromise Tort Claimants. A

Compromise Tort Claimant is a Tort Claimant who elects to take \$45,000 for the Claim (\$30,000 if the Claimant was an adult at the time of such Abuse), and gives a Release of Claims.<sup>6</sup> The Claimant must prove to the TCR by a preponderance of the evidence that the Claimant was Abused by a person who was a Priest, an employee or other agent of the Debtor or any Parish, or for whom or for whose actions the Debtor or any Parish was otherwise legally liable, at the time such person committed the Abuse (a "Responsible Person"), and that such Abuse involved physical contact. The TCR will not consider (i) any applicable statute of limitations or the passage of time since the date(s) of such Abuse, or (ii) any other defenses of Debtor, in making such determination. The Claim will be paid approximately 180 days after the Bankruptcy Court approves the Plan.

1.2.3.1.3 Settled Compromise Tort Claimants. A

Settled Compromise Tort Claimant is a Tort Claimant who has agreed with the Debtor to settle the Claim for \$45,000 or less,<sup>7</sup> and gives a Release of Claims. There are 29 Settled Compromise Tort Claims totaling \$614,800. The Claim is Allowed automatically in the agreed amount and will be paid approximately 90 days after the Bankruptcy Court approves the Plan.

1.2.3.1.4 Matrix Tort Claimants. A Matrix Tort

Claimant is a Tort Claimant who elects to have the TCR determine where his or her Claim should be placed relative to other Claims in a Matrix<sup>8</sup> with 4 tiers ranging from \$15,000 to \$74,999 in the lowest tier to \$750,000 to \$1,500,000 in the highest

<sup>6</sup> A Compromise Tort Claimant may amend his or her election to elect Convenience Tort Claim treatment at any time prior to final allowance or disallowance of his or her Claim.

<sup>7</sup> Settled Compromise Tort Claims are listed in Schedule 11.1.2(a) of the Plan. Each settlement must be approved by the Bankruptcy Court. If a settlement is not approved, the Claimant may elect treatment as a Convenience, Compromise, Matrix, Litigation or Non-Releasing Litigation Tort Claimant.

<sup>8</sup> The Matrix is attached to the Plan as Schedule 2.83.

1 tier based on all of the facts and circumstances of their Abuse, and gives a  
2 Release of Claims.<sup>9</sup> The Claimant must prove to the TCR by a preponderance of  
3 the evidence that he or she was Abused by a Responsible Person. His or her  
4 Claim may be disallowed if the TCR finds that there is clear, cogent and  
5 convincing evidence that the applicable statute of limitations had run on or before  
6 December 6, 2004. Matrix Tort Claimants, along with Settled Matrix Tort  
7 Claimants, Litigation Tort Claimants and Non-Releasing Litigation Tort Claimants,  
8 will be paid their pro rata share of the funds remaining after payment of  
9 Convenience Tort Claimants, Compromise Tort Claimants and Settled  
10 Compromise Tort Claimants in full. It is impossible to predict the amount that will  
11 be Allowed for the Claims of Matrix Tort Claimants, Litigation Tort Claimants and  
12 Non-Releasing Litigation Tort Claimants, or what the pro rata share of an  
13 individual Matrix Tort Claimant will be. Because no Matrix Tort Claims will be paid  
14 until all such Claims have been finally Allowed or Disallowed, such Claims may not  
15 be paid until approximately 1 year after the Bankruptcy Court approves the Plan.  
16 There is no guarantee that Matrix Tort Claims will be paid in full.

17 1.2.3.1.5 Settled Matrix Tort Claimants. A Settled  
18 Matrix Tort Claimant is a Tort Claimant who has agreed with the Debtor to settle  
19 the Claim for more than \$45,000,<sup>10</sup> and gives a Release of Claims. The Claim is  
20 Allowed automatically in the agreed amount. There are 7 Settled Matrix Tort  
21 Claims which total \$1,128,000, or approximately \$161,000 per Claimant. Settled  
22 Matrix Tort Claimants, along with Matrix Tort Claimants, Litigation Tort Claimants  
23 and Non-Releasing Litigation Tort Claimants, will be paid their pro rata share of

24 <sup>9</sup> A Matrix Tort Claimant may amend his or her election to elect Convenience or Compromise Tort  
25 Claim treatment at any time prior to final allowance or disallowance of his or her Claim.

26 <sup>10</sup> Settled Matrix Tort Claims are listed in Schedule 11.1.2(b) of the Plan. If the settlement is not  
approved, the Claimant may elect treatment as a Convenience, Compromise, Matrix, Litigation or  
Non-Releasing Litigation Tort Claimant.

1 the funds remaining after payment of Convenience Tort Claimants, Compromise  
2 Tort Claimants and Settled Compromise Tort Claimants in full. It is impossible to  
3 predict what the pro rata share of an individual Settled Matrix Tort Claimant will be.  
4 Because no Settled Matrix Tort Claims will be paid until all Matrix Tort Claims have  
5 been finally Allowed or Disallowed, such Claims may not be paid until  
6 approximately 1 year after the Bankruptcy Court approves the Plan. There is no  
7 guarantee that Settled Matrix Tort Claims will be paid in full.

8 1.2.3.1.6 Litigation Tort Claimants. A Litigation  
9 Tort Claimant is a Tort Claimant who elects to have his or her Claim determined in  
10 a court trial with a right to a jury, and gives a Release of Claims.<sup>11</sup> Litigation Tort  
11 Claimants must prove all elements of their Claim and their Claims are subject to all  
12 defenses the Debtor may have.<sup>12</sup> Litigation Tort Claimants, along with Matrix Tort  
13 Claimants, Settled Matrix Tort Claimants, and Non-Releasing Litigation Tort  
14 Claimants, will be paid their pro rata share of the funds remaining after payment of  
15 Convenience Tort Claimants, Compromise Tort Claimants and Settled  
16 Compromise Tort Claimants in full. It is impossible to predict the amount that will  
17 be Allowed for the Claims of Matrix Tort Claimants, Litigation Tort Claimants and  
18 Non-Releasing Litigation Tort Claimants, or what the pro rata share of an  
19 individual Litigation Tort Claimant will be. Because no Litigation Tort Claims will  
20 be paid until all such Claims have been finally Allowed or Disallowed, such Claims  
21 may not be paid until approximately 2-4 years after the Bankruptcy Court approves  
22 the Plan. There is no guarantee that Litigation Tort Claims will be paid in full.

23  
24 <sup>11</sup> A Litigation Tort Claimant may amend his or her election to elect Convenience, Compromise or  
25 Matrix Tort Claim treatment at any time prior to the earliest of the date on which the Plan Trustee  
has filed a dispositive motion with respect to, or trial has commenced on, the Claim.

26 <sup>12</sup> The Plan Trustee is responsible for handling Litigation Tort Claims and Non-Releasing Litigation  
Tort Claims, and will succeed to all of Debtor's defenses to such Claims.



1.2.3.1.7 Non-Releasing Litigation Tort Claimants.

A Non-Releasing Litigation Tort Claimant is a Tort Claimant who elects to have his or her Claim determined in a court trial with a right to a jury, and does not give a Release of Claims. Non-Releasing Litigation Tort Claimants must prove all elements of their Claim and their Claims are subject to all defenses the Debtor may have.<sup>13</sup> They will not share in a fund of approximately \$22.54 million paid by the Parishes, the Participating Catholic Entities and the Insurers for Releases of Claim. Non-Releasing Litigation Tort Claimants, along with Matrix, Settled Matrix and Litigation Tort Claimants, will be paid their pro rata share of the other funds remaining after payment of Convenience Tort Claimants, Compromise Tort Claimants and Settled Compromise Tort Claimants in full. It is impossible to predict the amount that will be Allowed for the Claims of Matrix Tort Claimants, Litigation Tort Claimants and Non-Releasing Litigation Tort Claimants, or what the pro rata share of an individual Non-Releasing Litigation Tort Claimant will be. Because no Non-Releasing Litigation Tort Claims will be paid until all such Claims have been finally Allowed or Disallowed, such Claims may not be paid until approximately 2-4 years after the Bankruptcy Court approves the Plan. Because Non-Releasing Litigation Tort Claimants will not share approximately \$22.54 million paid by the Parishes, the Participating Catholic Entities and the Insurers for Releases of Claim, it is highly unlikely that these Claims will be paid in full.

1.2.3.2 Future Tort Claims-Initial. \$1 million will be set aside

for Future Tort Claims-Initial (those filed on or before the 9<sup>th</sup> Anniversary of the Plan) . Future Tort Claims-Initial in excess of \$1 million will be paid by the Debtor, the Debtor's continuing insurance, and certain Parishes.

<sup>13</sup> A Non-Releasing Litigation Tort Claimant may amend his or her election to elect Convenience, Compromise or Matrix Tort Claim treatment at any time prior to the earliest of the date on which the Plan Trustee has filed a dispositive motion with respect to, or trial has commenced on, the Claim.

1 1.2.3.3 Future Tort Claims-Extended. Future Tort  
2 Claims-Extended (those filed after the 9<sup>th</sup> and on or before the 23<sup>rd</sup> Anniversary of  
3 the Effective Date) will be paid by the Debtor from the Debtor's continuing  
4 insurance.

5 1.2.4 Other Claims. The only material Other Claims are Ordinary  
6 Course Administrative Expense Claims, Parish and Catholic Entity Secured and  
7 Unsecured Claims (including Deposit and Loan Claims), General Unsecured  
8 Claims and Priest Retirement Claims.

9 1.2.4.1 General Unsecured Claims. The Proponents  
10 estimate that General Unsecured Claims of approximately \$256,439 will be  
11 allowed.<sup>14</sup> Each holder of an Allowed General Unsecured Claim will be paid in full  
12 in Cash by the Reorganized Debtor in 2 equal installments, plus interest at the rate  
13 of 5% per annum, with the first installment to be paid approximately 11 months  
14 after the Plan is approved by the Bankruptcy Court and the second installment to  
15 be paid 6 months later.

16 1.2.4.2 Priest Retirement Claims. Priest Retirement Claims  
17 with an approximate present value of \$4.5 million were scheduled by the Debtor.  
18 Each holder of an Allowed Priest Retirement Claim shall be paid on an on-going  
19 basis by the Reorganized Debtor in accordance with the Priest Retirement Plan,  
20 as it may be amended from time to time or as it may be replaced by another  
21 retirement plan with the approval of the Presbyterate and Presbyteral Council.  
22 Only current monthly retirement payments may be paid until the \$48 million  
23 Debtor's Note is paid in full. Net of contributions from other sources and pursuant  
24 to the Budget attached as Exhibit 1, the Debtor is currently paying out of operating

25 \_\_\_\_\_  
26 <sup>14</sup> Includes General Unsecured Convenience Claims of approximately \$17,869, which will be paid  
approximately 30 days after the Plan is approved.

1 revenues approximately \$25,000 per month to meet its priest retirement  
2 obligations.

3 1.2.4.3 Parish and Catholic Entity Secured and Unsecured

4 Claims. All Parish and Catholic Entity Secured and Unsecured Claims except  
5 Deposit and Loan Claims will be disallowed. Deposit and Loan Claims of  
6 approximately \$4.2 million will be Allowed. Allowed Deposit and Loan Claims will  
7 be paid from the proceeds of DLF Loans, but shall not be paid in full or in part or  
8 offset against the DLF Loans or proceeds thereof before the date on which the  
9 October 1, 2007 \$37 million payment and the December 31, 2007 \$10 million plus  
10 interest payment on Debtor's Note are paid in full when due. The proceeds of the  
11 DLF Loans and the balance of Allowed Deposit and Loan Claims in excess of such  
12 proceeds shall be paid in accordance with an agreement between Reorganized  
13 Debtor and the Parishes and Catholic Entities to be negotiated outside the Plan.

14 1.2.4.4 Ordinary Course Administrative Expense Claims.

15 Pre-confirmation Ordinary Course Administrative Expense Claims of  
16 approximately \$262,775 per month are being paid currently by Debtor.

17 **II. INFORMATION ABOUT THIS DISCLOSURE STATEMENT AND**  
18 **APPROVAL OF THE PLAN**

19 2.1 Important Information about this Disclosure Statement.

20 **THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT**  
21 **MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN OF**  
22 **REORGANIZATION ("PLAN") PROPOSED BY THE EXECUTIVE COMMITTEE**  
23 **OF THE ASSOCIATION OF PARISHES ("AOP"),<sup>15</sup> THE CATHOLIC BISHOP OF**

24 <sup>15</sup> The Association of Parishes is an unincorporated association of the Parishes contained within  
25 the Diocese of Spokane. The Executive Committee of the Association of Parishes consists of four  
26 lay Parishes' representatives and four clergy (one of whom is now deceased). The Executive  
Committee of the Association of Parishes has no power or authority over any Parishes, but rather,  
acted as a facilitator to inform the Parishes of their rights, obligations, and potential liabilities in  
conjunction with this Case, related litigation, and the Plan. The Executive Committee of the

1 SPOKANE AKA THE CATHOLIC DIOCESE OF SPOKANE ("DEBTOR"), THE  
2 FUTURE CLAIMANTS REPRESENTATIVE ("FCR") AND TORT CLAIMANTS'  
3 COMMITTEE ("TCC") (TOGETHER "PROPONENTS") FOR THE DEBTOR.  
4 THIS DISCLOSURE STATEMENT WAS PREPARED BY THE PROPONENTS.  
5 PLEASE READ IT WITH CARE. IT SUMMARIZES THE TERMS OF THE PLAN  
6 AND CONTAINS FINANCIAL AND OTHER INFORMATION ABOUT THE  
7 DEBTOR.

8 THIS DISCLOSURE STATEMENT IS NOT THE PLAN. THIS  
9 DISCLOSURE STATEMENT, TOGETHER WITH THE PLAN WHICH IS  
10 ATTACHED AS EXHIBIT 2, SHOULD BE READ COMPLETELY. FOR THE  
11 CONVENIENCE OF CREDITORS, THE PLAN IS SUMMARIZED IN THIS  
12 DISCLOSURE STATEMENT, BUT ALL SUMMARIES AND OTHER  
13 STATEMENTS REGARDING THE PLAN ARE QUALIFIED IN THEIR ENTIRETY  
14 BY THE PLAN ITSELF, WHICH IS CONTROLLING IN THE EVENT OF ANY  
15 INCONSISTENCY.

16 CERTAIN MATERIALS CONTAINED IN THIS DISCLOSURE  
17 STATEMENT ARE TAKEN DIRECTLY FROM OTHER, READILY ACCESSIBLE  
18 DOCUMENTS OR ARE DIGESTS OF OTHER DOCUMENTS. WHILE EVERY  
19 EFFORT HAS BEEN MADE TO RETAIN THE MEANING OF SUCH  
20 DOCUMENTS, YOU ARE URGED TO RELY UPON THE CONTENTS OF SUCH  
21 DOCUMENTS ONLY AFTER A THOROUGH REVIEW OF THE DOCUMENTS  
22 THEMSELVES. SUCH DOCUMENTS WILL BE PROVIDED BY DEBTOR ON  
23 REQUEST.

24  
25 Association of Parishes can be contacted in care of counsel for same, identified on the face of this  
26 Disclosure Statement. The Co-chair of the Executive Committee of the Association of Parishes is  
Fr. Michael J. Savelesky, who can be contacted via said counsel.

FIRST AMENDED DISCLOSURE STATEMENT FOR DEBTOR'S  
SECOND AMENDED PLAN - 11  
291/526062.46  
030707 1144/62174.00001

1 NO REPRESENTATIONS OR ASSURANCES CONCERNING THE  
2 DEBTOR, THE PARISHES, OR OTHER CATHOLIC ENTITIES, INCLUDING,  
3 WITHOUT LIMITATION, THEIR OPERATIONS, THE VALUE OF THEIR  
4 ASSETS, OR THE FUTURE OPERATIONS OF THE REORGANIZED DEBTOR,  
5 THE PARISHES, OR OTHER CATHOLIC ENTITIES ARE AUTHORIZED BY  
6 THE PROPONENTS OTHER THAN AS SET FORTH IN THIS DISCLOSURE  
7 STATEMENT.

8 THIS IS A SOLICITATION BY THE PROPONENTS ONLY AND IT IS NOT  
9 A SOLICITATION BY THE PROPONENTS' ATTORNEYS OR ANY OTHER  
10 PROFESSIONALS.

11 UNLESS OTHERWISE NOTED, FINANCIAL AND OTHER  
12 INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM THE  
13 DEBTOR'S RECORDS, INCLUDING ITS SCHEDULES OF ASSETS AND  
14 LIABILITIES, ITS STATEMENT OF FINANCIAL AFFAIRS, ITS MONTHLY  
15 FINANCIAL STATEMENTS, AND FROM CLAIMS FILED BY CREDITORS IN  
16 THIS CASE. THE DEBTOR HAS INFORMED THE OTHER PROPONENTS  
17 THAT IT BELIEVES THAT REASONABLE EFFORTS HAVE BEEN MADE TO  
18 ACCURATELY PREPARE ALL OF ITS RECORDS. HOWEVER, THE DEBTOR  
19 STATES THAT IT IS UNABLE TO WARRANT OR REPRESENT THAT THE  
20 INFORMATION CONTAINED THEREIN IS WITHOUT ERROR.

21 ACCORDINGLY, PROPONENTS ARE UNABLE TO WARRANT OR  
22 REPRESENT THAT THE FINANCIAL AND OTHER INFORMATION  
23 CONTAINED HEREIN IS WITHOUT ERROR, AND CAUTION CREDITORS  
24 THAT SOME OF THE INFORMATION PROVIDED HEREIN MAY BE SUBJECT  
25 TO CHANGE.

1           2.2   Approval of the Plan, and Right to Vote to Accept or Reject the Plan.

2   This Disclosure Statement is submitted by Proponents in accordance with  
3   Bankruptcy Code § 1125 for the purpose of soliciting acceptances of the Plan from  
4   holders of Tort Claims, Parish and Catholic Entity Secured and Unsecured Claims,  
5   and General Unsecured Claims.<sup>16</sup> It has been approved by the Bankruptcy Court  
6   as containing information of a kind, and in sufficient detail, which is adequate to  
7   enable a hypothetical reasonable creditor to make an informed judgment whether  
8   to vote to accept or to reject the Plan.

9           The Bankruptcy Court will hold a hearing on confirmation (“confirmation” is  
10   the bankruptcy term for “approval”) of the Plan beginning at 9:00 a.m. on April 24,  
11   2007 before the Honorable Patricia C. Williams, United States Bankruptcy Judge,  
12   in Courtroom 327, United States Bankruptcy Court, 901 West Riverside Avenue,  
13   Spokane, Washington, 99201. The Confirmation Hearing may be adjourned from  
14   time to time without further written notice.

15           In determining whether the Plan should be confirmed, the Bankruptcy Court  
16   will consider whether the Plan satisfies the requirements of §1129 of the  
17   Bankruptcy Code, including whether it is feasible and whether it is in the best  
18   interests of the holders of Claims. The Bankruptcy Court also will receive and  
19   consider a ballot report prepared by the Proponents concerning the votes for  
20   acceptance or rejection of the Plan by parties entitled to vote. Holders of Tort  
21   Claims, Parish and Catholic Entity Secured and Unsecured Claims, and General  
22   Unsecured Claims are grouped in separate Classes which vote separately.

23  
24           <sup>16</sup> These are the only Claims that are “impaired” ( a Claim is impaired if the Claimant will not be  
25   paid in full or its rights are otherwise modified, as more fully defined in §1124 of the Bankruptcy  
26   Code), and that therefore have a right to vote to approve or reject the Plan. All other Claims are  
  unimpaired (i.e., the rights of the holder have not been modified) and do not have a right to vote.  
  See §1124 of the Bankruptcy Code for further details.

1 In order for a Class of Claims to accept the Plan, ballots representing at  
2 least two-thirds in amount and more than one-half in number of those who vote in  
3 that Class must be cast in favor of the Plan. For voting purposes only, the  
4 Bankruptcy Court has set the value of each Claim held by a Tort Claimant at \$1,  
5 and all Tort Claimants whose claims have not been Disallowed by a Final Order  
6 will be entitled to vote. Bankruptcy Code § 1129(b) provides that, if the Plan is not  
7 accepted by one or more impaired classes of Claims, the Plan nevertheless may  
8 be confirmed by the Bankruptcy Court, if (i) the Bankruptcy Court determines that  
9 the Plan does not discriminate unfairly and is fair and equitable with respect to the  
10 non-accepting Class(es) of Claims that are impaired under the Plan; and (ii) at  
11 least one Class of impaired Claims has voted to accept the Plan. Proponents  
12 have requested that the Court confirm the Plan even if the Plan is not accepted by  
13 one or more impaired classes of Claims.

14 **IT IS IMPORTANT THAT YOU VOTE. THE PROPONENTS BELIEVE**  
15 **THAT A VOTE FOR ACCEPTANCE OF THE PLAN IS IN YOUR BEST**  
16 **INTEREST, AND RESPECTFULLY REQUEST THAT YOU VOTE IN FAVOR OF**  
17 **THE PLAN.**

18 2.3 Definitions and Plan Supremacy. All terms defined in the Plan shall  
19 have the same meanings when used in this Disclosure Statement. Capitalized  
20 terms which are not defined in the Plan or this Disclosure Statement are defined in  
21 §§ 101 and 1101 of the Bankruptcy Code and Bankruptcy Rule 9001. Terms  
22 defined in this Disclosure Statement which are also defined in the Plan or the  
23 Bankruptcy Code or Rules are so defined solely for convenience; and the  
24 Proponents do not intend to change the definitions of those terms from the Plan or  
25 the Bankruptcy Code or Rules. Furthermore, in the event of any inconsistency  
26 between the Plan and this Disclosure Statement, the Plan shall control. The

1 Exhibits attached to this Disclosure Statement are incorporated into and are a part  
2 of this Disclosure Statement.

### 3 III. OVERVIEW OF THE PLAN

#### 4 3.1 Payment of Tort Claims.

5 3.1.1 Source of Payments of Tort Claims. Allowed Tort Claims,  
6 including Allowed Future Tort Claims, will be paid from the proceeds of a \$48  
7 million Debtor's Note and a Payment Agreement as follows:

8 3.1.1.1 \$48 Million Debtor's Note. On the Effective Date, a  
9 \$48 million Debtor's Note payable in installments of \$37 million on or before  
10 October 1, 2007, \$10 million on or before December 31, 2007 and \$1 million on or  
11 before October 1, 2009 and secured by Debtor's Collateral, which is substantially  
12 all of the assets of the Reorganized Debtor, shall be delivered to the Plan Trust.  
13 The Collateral shall include a \$10 million Parishes' Note 1, a \$5 million Parishes'  
14 Note 2, a \$1 million Parish Note 3, \$6.4 million in Cash and other property from the  
15 Participating Catholic Entities, and approximately \$19.8 million plus accruing  
16 interest in Insurance Settlements.

17 3.1.1.1.1 Parishes' Notes. On the Effective Date,  
18 the Parishes shall purchase all of the Debtor's interest in certain real property to  
19 which the Debtor holds record title and personal property used by the Parishes in  
20 conjunction with such real property ("Parish Property")<sup>17</sup> for \$14 million paid by  
21 certain Parishes to be allocated to the Estate Fund.<sup>18</sup> Certain Parishes also shall  
22 pay Reorganized Debtor an additional \$2 million to be allocated to the Release  
23 Fund<sup>19</sup> for a Release of Claims from each holder of a Tort Claim who elects to

24  
25 <sup>17</sup> The Section 541 Litigation alleges that the Debtor is the owner of this property. The Debtor and  
the Parishes allege that the Parishes are the owners.

26 <sup>18</sup> This is the Estate's Portion of Parishes' Notes.

<sup>19</sup> This is the Release Portion of Parishes' Notes.



1 receive funds paid for such Releases of Claim. The total \$16 million obligation  
2 shall be evidenced by a \$10 million Parishes' Note 1 executed by all of the  
3 Participating Parishes jointly and severally payable on or before December 31,  
4 2007, a \$5 million Parishes' Note 2 executed by the Note 2 Parishes<sup>20</sup> jointly and  
5 severally payable on or before October 1, 2007, and a \$1 million Parish Note 3  
6 executed by the Note 3 Parish<sup>21</sup> jointly and severally payable on or before October  
7 1, 2009, (collectively the Parishes' Notes"). Each Participating Parish shall  
8 execute, acknowledge as necessary, and deliver to the Plan Trustee a Deed of  
9 Trust and Security Agreement ("Parish DOT") on the portion of such Parish's  
10 Parish Property which is real property, fixtures and intangible personal property  
11 such as permits, plans, service contracts and warranties related to such real  
12 property and fixtures then owned and thereafter acquired ("Parish Collateral") to  
13 secure payment of the Parishes' Note 1. Participating Parishes have committed to  
14 raising or borrowing funds to pay Parishes' Note 1, plus interest accruing after  
15 October 1, 2007, on or before December 31, 2007, but their obligation to pay  
16 Parishes' Note 1 is not conditioned on the success of such fund raising or  
17 borrowing. The Parish DOTs of the Note 2 Parishes also shall secure Parishes'  
18 Note 2. The Reorganized Debtor has committed to raising or borrowing funds to  
19 pay Parishes' Note 2 on or before October 1, 2007, but the obligation of the Note 2  
20 Parishes to pay Parishes' Note 2 is not conditioned on the success of such fund  
21 raising or borrowing. The Parish DOT of the Note 3 Parish also shall secure  
22 Parish Note 3. The Reorganized Debtor has committed to raising or borrowing  
23 funds to pay Parish Note 3 on or before October 1, 2009, but the obligation of the

24 \_\_\_\_\_  
25 <sup>20</sup> The Note 2 Parishes are identified in Schedule 15.4.3.1.2 of the Plan.

26 <sup>21</sup> The Note 3 Parish is Our Lady of Lourdes Parish and its Parish Entity. Parish Entities are legal entities to be formed by Parishes for the purpose of holding title to and/or beneficial interests in the Parish's assets

1 Note 3 Parish to pay Parish Note 3 is not conditioned on the success of such fund  
2 raising or borrowing. Under no circumstances do Parishes' Notes 1, 2, or 3 create  
3 any legal liability or obligation for individual parishioners.

4 3.1.1.1.2 Participating Catholic Entities. On the  
5 Effective Date, the Participating Catholic Entities shall purchase all of the Debtor's  
6 interest in certain property used by the Participating Catholic Entities, and all of the  
7 Debtor's interest in the Guse Trust (which Debtor believes can not be used to pay  
8 Claims) ("Catholic Entity Property")<sup>22</sup> for \$5,657,500 in Cash and other property to  
9 be allocated to the Estate Fund,<sup>23</sup> and shall pay Reorganized Debtor an additional  
10 \$742,500 in Cash and other property to be allocated to the Release Fund<sup>24</sup> for a  
11 Release of Claims from holders of Tort Claims who elect to receive funds for such  
12 Releases of Claim.

13 3.1.1.1.3 Insurance Settlements. The Insurers will  
14 pay Debtor approximately \$19.8 million in Insurance Settlements to be allocated to  
15 the Release Fund for a Release of Claims from each holder of a Tort Claim who  
16 elects to receive funds paid for such Releases of Claim.

17 3.1.1.2 Commitment to Pay Future Tort Claims.

18 3.1.1.2.1 Future Tort Claims-Initial. On the  
19 Effective Date, Reorganized Debtor and FTC Parish Group 1 and Group 2<sup>25</sup> shall  
20 execute and deliver to the Plan Trustee a Payment Agreement undertaking to pay  
21 all Future Tort Claims filed on or before the 9<sup>th</sup> anniversary of the Effective Date  
22 ("Future Tort Claims-Initial") and all Plan Trust Costs and Expenses with respect to

23 \_\_\_\_\_  
24 <sup>22</sup> The Section 541 Litigation alleges that the Debtor is the owner of this property. The Debtor and  
the Participating Catholic Entities allege that the Participating Catholic Entities are the owners.

25 <sup>23</sup> This is the Estate's Portion of Catholic Entities Payments.

26 <sup>24</sup> This is the Release Portion of Catholic Entities Payments.

<sup>25</sup> FTC Parish Group 1 and Group 2 Parishes are identified in Schedules 15.9(a) and (b) of the  
Plan.

1 Future Tort Claims-Initial in excess of \$1 million. The Payment Agreement shall  
2 be secured by the FC DOTs on the Debtor's Collateral, the Parish Group 1  
3 Collateral and the Parish Group 2 Collateral. The FC DOTs shall be subordinate  
4 to the security interests provided for in the Debtor's DOT and the Parishes' DOTs.  
5 The FC DOTs on the FTC Parish Group 2 Collateral shall be subordinated to any  
6 security interests granted by the FTC Parish Group 2 to secure a loan or loans not  
7 to exceed the then outstanding balance of the Parishes' Notes the proceeds of  
8 which are used exclusively to pay the Parishes' Notes in full. The FC DOTs on the  
9 FTC Parish Group 1 Collateral and the Debtor's Collateral shall not be  
10 subordinated to any such security interests. The Reorganized Debtor also shall  
11 continue to insure for Tort Claims caused by acts committed on or after February  
12 1, 1989 with Catholic Mutual, its successor, or another insurer, under insurance  
13 policies equivalent to its current insurance policies with Catholic Mutual, until all  
14 Future Tort Claims-Initial have been determined by a Final Order and all Allowed  
15 Future Tort Claims-Initial and all Plan Trust Costs and Expenses with respect to  
16 Future Tort Claims-Initial have been paid in full. The provisions referred to in this  
17 Article 3.1.1.2.1 are referred to collectively as the "Future Claims Commitment".  
18 As consideration for the Future Claims Commitment, Debtor and the Parishes  
19 shall receive a Release of Claims from each holder of a Tort Claim who elects to  
20 receive funds paid for such Releases of Claim.

21 3.1.1.2.2 Future Tort Claims-Extended. The  
22 Reorganized Debtor also shall continue to insure for Future Tort Claims filed after  
23 the 9<sup>th</sup> anniversary of the Effective Date and on or before the 23<sup>rd</sup> anniversary of  
24 the Effective Date ("Future Tort Claims-Extended") caused by acts committed on  
25 or after January 1, 1989 under insurance policies with Catholic Mutual, its  
26 successor, or another insurer, under insurance policies equivalent to its current

1 insurance policies with Catholic Mutual, until all Future Tort Claims-Extended have  
2 been determined by a Final Order and all Allowed Future Tort Claims-Extended  
3 and all Plan Trust Costs and Expenses with respect to Future Tort  
4 Claims-Extended have been paid in full, which obligation shall continue to be  
5 secured by the Debtor's FC DOT. If, on the 9<sup>th</sup> Anniversary of the Effective Date,  
6 the Reorganized Debtor does not have such insurance in full force and effect, the  
7 Parishes in Parish Group 1, jointly and severally with the Reorganized Debtor, will  
8 be obligated under the Payment Agreement to continue insurance for Future Tort  
9 Claims-Extended, which obligation shall continue to be secured by the FC DOTs  
10 of the Parishes in Parish Group 1.

11 3.1.1.2.3 Future Tort Claims Filed after 23<sup>th</sup> Plan  
12 Anniversary Barred. All Future Tort Claims filed after the 23<sup>rd</sup> anniversary of the  
13 Effective Date shall have no right to payment or any other right under the Plan,  
14 and all such Claims shall be discharged under the Plan.

15 3.1.1.3 Parishes and Catholic Entity Release of Insurance.  
16 On the Effective Date the Parishes and the Catholic Entities (except Morning Star  
17 Boys' Ranch) shall release their claims to coverage under the insurance policies  
18 covered by the Insurance Settlements in consideration of entry of the Permanent  
19 Injunction and receipt of Releases of Claims from each holder of a Tort Claim who  
20 elects to receive funds paid for such Releases of Claim.

21 3.1.2 Allocation of Proceeds of \$48 Million Debtor's Note.

22 3.1.2.1 Estate Fund. The \$14 million Estate's Portion of  
23 Parishes Note, the \$5,657,500 Estate's Portion of Catholic Entity Payments and  
24 payments of approximately \$5.55 million from Debtor's property and future income  
25 shall be allocated to the Estate Fund, and Allowed Administrative Expense Claims  
26 for Professional Fees incurred on or before the Effective Date which were unpaid

1 on September 14, 2006 now estimated at \$7 million shall be deducted before such  
2 amounts are allocated to the Estate Fund. The amount of the Estate Fund is  
3 estimated to be approximately \$18,207,500.

4 3.1.2.2 Release Fund. The \$2 million Release Portion of  
5 Parishes Note, the \$742,500 Release Portion of Catholic Entity Payments and the  
6 approximately \$19.8 million Insurance Settlements shall be allocated to the  
7 Release Fund. The amount of the Release Fund is estimated to be approximately  
8 \$22,542,500.

9 3.1.3 Right to Distribution from \$18.21 Million Estate Fund and  
10 \$22.54 Million Release Fund to Holders of Tort Claims.

11 3.1.3.1 Right to receive payments from Estate Fund and  
12 Release Fund.

13 3.1.3.1.1 Treatment Election. A Tort Claimant who  
14 has not settled his or her Claim must choose how he or she wants to be treated  
15 under the Plan from 5 choices: as a Convenience Tort Claimant, a Compromise  
16 Tort Claimant, a Matrix Tort Claimant, a Litigation Tort Claimant, or a  
17 Non-Releasing Litigation Tort Claimant. Tort Claimants who have settled their  
18 Claims and whose settlements are approved by the Bankruptcy Court will be  
19 treated as Settled Compromise Tort Claimants or Settled Matrix Tort Claimants.

20 3.1.3.1.2 Convenience Tort Claimants. A  
21 Convenience Tort Claimant shall be paid \$15,000 if the Tort Claims Reviewer  
22 ("TCR") determines based on the Tort Claimant's proof of claim in the Bankruptcy  
23 Case and, if requested by the TCR, the Tort Claimant's Questionnaire by a  
24 preponderance of the evidence that the Claimant was Abused. The TCR shall not  
25 consider (i) whether the person who Abused the Tort Claimant was a Responsible  
26 Person, (ii) any applicable statute of limitations or the passage of time since the

1 date(s) of such Abuse, or (iii) any other defenses of Debtor, in making such  
2 determination. Convenience Tort Claimants shall be paid from the Convenience  
3 Fund, which is a portion of the Estate Fund and the Release fund.

4 3.1.3.1.3 Compromise Tort Claimants. A

5 Compromise Tort Claimant shall be paid \$45,000 if the TCR determines by a  
6 preponderance of the evidence that the holder of such Claim was a minor at the  
7 time of such Abuse, and in the amount of \$30,000 if the TCR determines by a  
8 preponderance of the evidence that the holder of such Claim was an adult at the  
9 time of such Abuse. The Claimant must show by a preponderance of the evidence  
10 that he or she was Abused by a Responsible Person, and that such Abuse  
11 involved physical contact. The TCR shall not consider any applicable statute of  
12 limitations, the passage of time since the date(s) of such Abuse, or any other  
13 defenses of Debtor, in making such determination. Compromise Tort Claimants  
14 shall be paid from the Compromise Fund, which is a portion of the Estate Fund  
15 and the Release fund.

16 3.1.3.1.4 Settled Compromise Tort Claimants. A

17 Settled Compromise Tort Claimant shall be automatically paid in the amount of  
18 \$45,000 or less listed for the Claimant's Claim in Schedule 11.1.2(a) of the Plan.  
19 The Claimant does not need to give any proof of his or her Claim, and the Claim is  
20 not subject to any applicable statute of limitations, any defense based on the  
21 passage of time since the date(s) of the Claimant's Abuse, or any other defenses  
22 of Debtor. Settled Tort Claimants shall be paid from the Compromise Fund, which  
23 is a portion of the Estate Fund and the Release fund.

24 3.1.3.1.5 Matrix Tort Claimants. Matrix Tort

25 Claimants shall be paid their pro rata share of the Matrix Fund, which is a portion  
26 of the Estate Fund and the Release fund. The amount of a Matrix Tort Claimant's

1 Claim shall be determined according to a Matrix with 4 tiers ranging from \$15,000  
2 to \$74,999 in the lowest tier to \$750,000 to \$1,500,000 in the highest tier based on  
3 all of the facts and circumstances of their Abuse. They must show by a  
4 preponderance of the evidence that they were Abused by a Responsible Person.  
5 Their Claim may be disallowed if the TCR finds that there is clear, cogent and  
6 convincing evidence that the applicable statute of limitations had run on or before  
7 December 6, 2004. The TCR shall not consider any other defenses of Debtor in  
8 making such determination. There is no guarantee that the Matrix Fund will be  
9 sufficient to pay Matrix Tort Claims in full. No Matrix Tort Claims will be paid until  
10 all such Claims have been finally Allowed or Disallowed.

11 3.1.3.1.6 Settled Matrix Tort Claimants. Settled  
12 Matrix Tort Claimants shall be paid their pro rata share of the Matrix Fund, which is  
13 a portion of the Estate Fund and the Release fund. The amount of their Claim,  
14 which is subject to reduction because of such pro ration, shall be the amount more  
15 than \$45,000 listed in Schedule 11.1.2(b) of the Plan. Settled Matrix Tort  
16 Claimants do not need to give any proof of their Claim, and their Claims are not  
17 subject to any applicable statute of limitations, any defense based on the passage  
18 of time since the date(s) of the Claimant's Abuse, or any other defenses of Debtor.  
19 There is no guarantee that the Matrix Fund will be sufficient to pay Settled Matrix  
20 Tort Claims in full. No Settled Matrix Tort Claims will be paid until all Matrix Tort  
21 Claims have been finally Allowed or Disallowed.

22 3.1.3.1.7 Litigation Tort Claimants. Litigation Tort  
23 Claimants shall be paid their pro rata share of the Litigation Fund, which is a  
24 portion of the Estate Fund and the Release Fund. The amount of a Litigation Tort  
25 Claimant's Claim shall be determined in a court trial with a right to a jury. Litigation  
26 Tort Claimants must prove all elements of their Claim, and their Claims are subject

1 all defenses the Debtor may have. There is no guarantee that the Litigation Fund  
2 will be sufficient to pay Litigation Tort Claims in full. No Litigation Tort Claims will  
3 be paid until all such Claims have been finally Allowed or Disallowed.

4 3.1.3.1.8 Non-Releasing Litigation Tort Claimants.

5 Non-Releasing Litigation Tort Claimants shall be paid their pro rata share of the  
6 Non-Releasing Litigation Fund, which is a portion of the Estate Fund only.

7 Non-Releasing Litigation Tort Claimants do not share in the Release Fund. The  
8 amount of a Non-Releasing Litigation Tort Claimant's Claim shall be determined in  
9 a court trial with a right to a jury. Non-Releasing Litigation Tort Claimants must  
10 prove all elements of their Claim, and their Claims are subject all defenses the  
11 Debtor may have. Because Non-Releasing Litigation Tort Claims will not share in  
12 the Release Fund, it is highly unlikely that the Non-Releasing Litigation Fund will  
13 be sufficient to pay Non-Releasing Litigation Tort Claims in full. No Non-Releasing  
14 Litigation Tort Claims will be paid until all such Claims have been finally Allowed or  
15 Disallowed.

16 3.1.3.1.9 Release of Claims. Tort Claimants must

17 execute and deliver a Release of Claims to be treated as a holder of a  
18 Convenience Tort Claim, a Compromise Tort Claim, a Settled Compromise Tort  
19 Claim, a Matrix Tort Claim, a Settled Matrix Tort Claim, or a Litigation Tort Claim,  
20 and those who receive such treatment share in both the \$18.21 million Estate  
21 Fund and the \$22.54 million Release Fund. Tort Claimants who elect treatment as  
22 a holder of a Non-Releasing Litigation Tort Claim share in the \$18.21 million  
23 Estate Fund but do not share in the \$22.54 million Release Fund.

24 3.1.3.2 No Estimate of Distributions for Matrix Tort Claims,

25 Settled Matrix Tort Claims, Litigation Tort Claims and Non-Releasing Litigation

26 Tort Claims. It is impossible to predict which or how many Tort Claimants will elect